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Study on Electronic Commerce Behaviors in Russian Market

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Study on Electronic Commerce Behaviors in Russian Market
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Electronic Commerce is doing business online; it provides numerous benefits to a company eager to initiate the Electronic business. Company can locate customers or suppliers world-wide, at a reasonable cost and fast, company can facilitate innovation and enable unique business models, have direct interaction with the customers globally which helps in improved customer service and relationship, can conduct business operations virtually without interruptions as web sites can be open 24 hours a day every day of the year, improved supply chain management by reducing delays, inventories and cost.

The main objective of this study was to examine the role of E-commerce in Russian market. As case company `Tokmaani Oy` intends to start its business venture in Russia in near future, and moving to the new market requires many strategic skills to distinguish, this study provides a look to the current market position, competitors and market behaviour. The environment for e-business and key obstacles for doing business in Russia were examined and analysed with empirical data collected during the study. To understand the basic needs of this business medium the study is supported by electronic commerce theories, as well the tangible market analysis were conducted by collecting the information mostly from secondary sources.

According to the data collected during the study the Russian online retail market in 2011 worth \$ 10.5 billion in which physical goods were \$ 7.8 billion. In year 2010 approximately 07 million people have purchased something online in one month. About 50% Russians with monthly earning 10,000 rubles spend something to buy online, while the group with highest income reaches almost 64%. Inhabitants of 10 big regions have almost 60% of the whole Russian internet users and most number of online customers in Russia. Indicators have forecasted that by 2020 the Russian electronic commerce market could reach \$ 50 billion, and in longer term \$100 billion, but fewer than two conditions, increase in the number of internet users and the solution of structural and infrastructural problems, in particular logistics.

In the categories of online sales of physical goods most in demand were books, electronics and smart phones, leisure and food industry products, cosmetics and beauty products, etc. E-commerce is increasing with a speed of almost 25% annually which makes Russia even more sparkling for international companies to start their business ventures. The time is right for the Finland's very prevalent company `Tokmaani Oy` to initiate the Webstore like they have in Finland (Toknet.fi), in few years it will show on records the best strategic move.

Key words: Electronic commerce, rubles (Russian official currency), innovation, venture.

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1 INTRODUCTION

The scope of this study will be to research the electronic commerce applications for the `Toknet` Webstore in Russian market. The uniqueness of this new marketing aspect is clearly exceptional at present, and case company has got expertise in Finnish market. As the company intend to broaden itself by launching themselves in Russian market which has the significant potency, this study will provide meaningful foundations and strategic considerations for instituting a Webstore which can facilitate the Russian market.

2 CASE COMPANY

The Tokmanni Group is a network of retail stores in Finland. The group consists of 142 stores operating under seven different brands which are Tokmanni, Tarjoustalo, Maxi-kodintukku Vapaa Valinta, Robinhood, Säästöporssi and Maxi-Makasiini. According to Tokmanni annual report 2011, The Tokmanni Group's net sales in 2011 were up by 3.2% than previous year. The group invested in multi-channel operations and a new web store `Toknet` was introduced to the customers in November, 2011. Now customers can purchase online from thousands of consumer goods, the goods are delivered according to the customer's choice, either free of charge to a group's store for collection, or home delivery in conjunction with postal services. (Tokmanni 2012) According to Tokmanni Group Managing Director Mr. Heikki Väänänen "Multi-channel is the thing, which controls the trade-related development, E-commerce enables our customers to meet us, and offering more and to serve" (digibusiness 2011).

3 OBJECTIVES

The main objectives of this study will be to examine the role of E-commerce in Russian market. As case company intends to start its business ventures in Russia in near future the main focus of this study will be to recognizing the requirements for opening a Webstore like `Toknet` there, as moving to the new market requires many strategic skills to distinguish; the study will provide a look to the current market position, competitors and market behaviour. Customer willingness to trust a company runs by outsiders especially from neighbouring country will be the key goal point of all the data collection. The environmental for e-business and key obstacles for doing business in Russia will be examined and analyzed with empirical data collected during the study.

4 RESEARCH IDEA

The idea of this research was discussed by the "Mr. Milton Aldrete" (Planner, International Affairs at Laurea University of Applied Sciences, Leppävaara Unit) on Wednesday 07, March 2012. He will also be the key stakeholder in the study. The topic was preferred from a number of other projects in Laurea University of applied sciences for the same case company under the directions and supports of "Mr. Erki Milistver" (Development Director of Tokmanni Oy). The results of this study will be supported by electronic commerce theories; as well the tangible market analysis will be conducted by collecting the information and examining the behavior of unknown market characteristics.

4.1 Research questions

The main research questions will be what is the role of electronic commerce in Russian markets, what is the and size and strength of online market, Which are the most online are sold items in last few years, who are the most recognized online retailers, What are the key challenges for doing business in Russia and what are the key guidelines to consider before launching Toknet in Russia.

4.2 Research method

Qualitative research methods have been used in the research of this case. "Qualitative research attempts precise measurement of something. In business research, qualitative methodologies usually measure consumer behavior, knowledge, opinions or attitudes". (Cooper & Schindler 2006, 198)

"Qualitative research is subjective in nature and involves examining and reflecting on perceptions in order to gain an understanding of the social and human activities" (Jill Collis & Roger Hussey, 2003). In this report the main focus is on examining the behavior of Russian customers towards e-commerce, research is based on hypothesis and the data is usually collected through secondary sources using online databases, current research and market reports, while articles and books have been used to explain the theoretical implementations of the subject

5 THEORETICAL BACKGROUND

This theory section describes the most important constituent of this research which is Electronic Commerce (EC) as we are concentrating mainly on Webstore initiation in our desired territory Russia, so here we try to ascertain some acquaintance about the subject.

5.1 Electronic commerce

“Electronic commerce (EC) is doing business online. It is about using the power of digital information to understand the needs and preferences of each customer and each partner to customize products and services for them, and then to deliver the products and services as quickly as possible”. (Peter 2002, 3)

According to (Turban, King, Lee & Liang 2010,46) EC is the process of buying, selling, transferring, or exchanging products, services, and/or information via computer networks, mostly the internet and intranets, while Stephen (2011,7) emphasises the fact that EC forms the broader business domain of using electronic-mediated systems for commercial activity and is in the parent business activity which contains e-marketing. EC provides commercial frameworks for organizations to manage customers and partners for profit.

Chaffey, D. (2010, 10) defines electronic commerce as buying and selling using the internet. He also adds that electronic commerce is not solely restricted to the actual buying and selling of products, but also pre-sale and post-sale activities across the supply chain.

5.1.1 Benefits of Electronic Commerce

According to Turban et al. (2010, 77) EC provides numerous benefits to a company eager to initiate the Electronic business. Company can locate customers and/or suppliers worldwide, at a reasonable cost and fast. , company can facilitate innovation and enable unique business models, have direct interaction with the customers globally which helps in improved customer service and relationship, can conduct business operations virtually without interruptions as web sites can be open 24 hours a day every day of the year, improved supply chain management by reducing delays, inventories and cost.

Filenius & Kettunen (1998) described three main goals of electronic commerce to vendors which are improvement in present business process, acquiring a competitive edge and cost saving and acquiring new customers and business models through electronic networks. Communication can be enhanced both inside the company and also with the customers. An internet allows a seamless application platform to the company’s various internal databases and with extranet solutions, dedicated customers can be linked to the specific company’s information resources that are critical to the respective customer relationship. The World Wide

Web and e-mail enables time -independent communication channels between vendor and customer.

The internet reaches millions of new, potential customers. This increase the market potential of companies' products especially makes a difference in products that usually have a very limited demand. The internet allows a profitable customer base for the various products especially in geographically widely dispersed areas.

5.1.2 Limitations and barriers

According to Turban et al. (2004, 19) the limitations and barriers regarding EC can be divided into two categories, namely technological and non-technological. The technological limitations include, for example, a lack of universally accepted security and reliability standards, difficulties in integrating EC solutions with company's already existing database and cost related to establishing the required EC infrastructure.

The non-technological limitations are perhaps the most significant ones for long term success of EC efforts as they include issues such as the end-user concerns about privacy and their lack of instruct in EC security. National laws and regulations as well as the need of customers to be able to touch and see the product before making the final decision are also issues needed to be taken into consideration

5.2 Managing Infrastructure

Due to its uniqueness compared with other marketing strategies, specific considerations about EC infrastructure need to be studied as unknown cost factors can diminish the expected profitability of the new strategy for a whole new potential market. For a successful and impartial decision about new strategic decisions all elements in question should be known throughout before the viability of the use of this new marketing element. Here we talk about technological and application infrastructure which has upmost importance in infrastructure management.

5.2.1 Technological Infrastructure

Turban et al.(2004,67) emphasized that due to the fast speed at which EC is evolving companies need to be ready to adapt quickly to new available technologies in order to stay competitive. The need for a company to adapt and exceed market requirements coupled with EC possibilities might lead to a change in the company's overall strategies and structure, in cases

where experimenting with, for example, new services and business models, receive positive feedback from the market.

The term “technology infrastructure” as described by Chaffey et al. (2002, 88) represents the hardware necessary to operate electric business and includes elements such as servers, network operating systems and can be divided into three tiers, each of which require specific considerations from the management. These areas of considerations are system software, network and storage. Such issues should be considered when a company is deciding how it will acquire the required technological infrastructure. Possibilities range from renting such equipment from an internet service provider company to leasing or purchasing.

Standardization is one of the paramount issues to be considered regarding system software as it comprises considerations about networking software as well. This can be explained more thoroughly by stating that, for example, the choice of standardizing services for a specific internet browser, which is successfully standardized, are imperatively important in reducing costs from support and maintenance services and initial software purchasing.

Together with system software, network software is an area where standardization is very important so that connections between the company and its customers are easily made. On the network level management needs to decide on issues relating to internal company networks (intranets) as well as external networks (for example extranets or the internet). The most important consideration regarding the area is however, the question whether or not out-sources managing such a system.

In addition to system and network software, attention also to be paid to storage software according to Chaffey et al. (2002, 89) Storage in itself is an area which needs to be managed very efficiently as failures, for example, to maintain an internet free from viruses might result in significant financial losses. Financial losses of this kind may be the result of a situation where normal day-to-day operations have to be temporarily taken out of use, when a company's website, for example, is being re-built. The negative effects could be experienced company wide as virtually all EC operations (and others strongly linked with it) would be out of use.

5.2.2 Applications Infrastructure

According to Chaffey et al. (2002, 88) Application infrastructure constitutes mostly the software used in delivering services to company's employees, customers and other partners. On a general service level such software comprises applications for customer relationship management (CRM) as well as supply chain management (SCM) among others. Turban et al. (2004, 199) mention advertising management also as a part of application infrastructure, which means the use of processes and software in advertising over the internet as well tracking, for exam-

ple, the number of people visiting a website. Application infrastructure is of utmost importance in EC management and it is not static, means continuous improvements in technology requires continuous checks and development according to the situations. Some technologies which seem leading in a can be turned out as dead after a particular time.

5.3 E-Commerce Security

The internet is a unique marketing conduit in many ways of which perhaps the most important ones are being relatively free of the constraints of time or place. The issue of increased availability and access for people all over the world presents also significant problem as EC market place have become subject to the attackers of such electronic marketplace criminal and hackers, for example. According to Turban et al. (2010, 476) information systems including EC are vulnerable to both unintentional and international threats.

5.3.1 Unintentional Threats

According to Turban et al. (2010, 477) unintentional threats can be categorized into three major categories which are human error, environmental hazards and malfunctions in the computer. Human error can be happened in the process of software making and upgrading, while errors can be result of negligence or misunderstanding also. Environmental hazards can occur in terms of earthquakes, fires, floods etc. Computer resources can also be damaged by the side effects such as smoke and water. While defects in computer systems can be the result of poor manufacturing, defective materials, and outdated or poorly maintained networks. Unintentional malfunctions can also happen for reasons such as ranging from lack of experience to inadequate testing etc.

5.3.2 Intentional attacks and crimes

According to Turban et al. (2010, 477) International attacks are done by criminals. Examples of international attacks include theft of data, inappropriate use of data (e.g., manipulating inputs), theft of laptops and equipment and/or programming data, vandalism, sabotage, malicious damage to computer resources, destruction from viruses and similar attacks, miscellaneous computer abuses, and internet fraud.

“As cyber war becomes a reality illustrates, the internet and web are increasingly vulnerable to large-scale attacks and potentially large-scale failure. Increasingly, these attacks are led be organized gangs of criminals operating globally- an unintended consequences of globalization”. Kenneth et al. (2010, 5-3)

As the online crimes increases the technology for protection from these crimes has also been improved and available. Companies dealing in EC should apply these technologies and developments into their systems to protect the customer's security especially when customer is purchasing online his personal information, payment records and issues related to these, etc.

5.4 Securing Communications

According to Chaffey et al. (2010, 5-7) good EC security requires a set of laws, procedures, policies and technologies that, to extent feasible, protect individuals and organizations from unexpected behavior in the EC marketplace. EC security requires following set of requirements.

5.4.1 Authentication

According to Turban et al. (2010, 479) authentication is a process to verify the real identity of an entity, which could be an individual, software agent, computer program, or EC website. Chaffey et al. (2010, 5-8) explains the authenticity refers to the ability to identify the identity of a person or entity with whom you are dealing on the internet.

In the view of Kenneth et al. (2010, 5-39) authentication is very important in EC, which leads to the real identity of the customer. The process identifies the real identity of the entity and then leads to the desired requirements; this is like a security gate of the building where you have to show your identification for entering. The most commonly used methods for authentication include, for example, passwords, smart cards (physical cards inserted to card readers especially designed for this purpose), and the use of similar encryption to encode and decode messages and electronic/ digital signatures etc.

5.4.2 Authorization

“Authorization is the process of determining what an authenticated entity is allowed to access and what operations it is allowed to perform” Turban et al. (2010, 479). The authorization process is important for the companies, for example those who are offering different discounts to preferred or permanent customers instead of everyone, or for the customers who buy lesser quantities are not offered to access specific data etc. It provides significance advantage for overall successful implementation of the EC infrastructure, as the officials or workers who are working at the backend have different rights in overall supply chain then the normal customers who just visit the websites for checking or placing order. Lack of communi-

cation among the supply chain can result in less sales and lack of customer's interest in the company that is why authorization entities are essential in the EC security.

5.4.3 Auditing

Word auditing basically comes from audit, which means to record, In EC security it is used to record the customers data. When a person or programme approaches a Web site or inquiries a database, various pieces of information are recorded or logged into a file. The process of recording information about what was accessed, when, and by who is known as auditing. Audits provide the means to reconstruct what specific actions have occurred and may help EC security investigators identify the person or program that performed unauthorized actions.

Turban et al. (2010, 479) emphasized this specific element of EC security should be used to study clients actions in the website to determine patterns of behavior. It could be used efficiently to determine that a person using the website is one with permission to do so. Effective departmental cooperation should be used so that the customer services personnel would be informed of suspicious behavior and could, for example, make sure by calling a retailer chains head office that a specific order actually have been made. That importance of good customer service would be emphasized where such above mentioned issues would arise.

5.4.4 Nonrepudation

According to Turban et al. (2010, 479) Nonrepudation is the assurance that online customers or trading partners will not be able to falsely involves several assurances, including providing. Chaffey et al. (2010, 5-8) explains that nonrepudation refers to the ability to ensure that EC participants do not deny their online actions. For instance, the availability of free e-mail accounts with alias names makes it easy for a person to post comments or send a message and perhaps later deny doing so.

“Authentication and nonrepudation are potential defenses against phishing and identity theft. To protect and ensure trust in EC transactions, digital signatures, or digital certificates, are often used to validate the sender and time stamp of the transaction so it cannot be later claimed that the transaction was unauthorized or invalid”. Turban et al. (2010, 479)

5.5 Buying process in an E-market

According to Turban et al. (2010, 93) customers buy goods in different ways. The most common way is purchasing from catalogue at fixed prices. Sometimes prices may be negotiated or

discounted. Another way is dynamic pricing, which refers to nonfixed prices such as those in auctions or stock markets. The buyers use the process demonstrated in below figure: 1, buying process in an E-market.

This process normally starts with a customer enter into a seller's website, registers (security or privacy statements) if required and enters into an e-catalogue or his private "my account". There can be numerous products offered at the catalog so he searches for his interested products and a procedure is required for this purpose. Know the customers can also compare prices with other vendors if given there and negotiate or clarify if given there; the comparison can also be done in pre-shopping activities before entering the site. If not convinced the customer will leave the site and if satisfied he will select the items and put them into his shopping cart. If he is interested in more e items he selects and put them in his shopping cart same way. Once the shopping completes he goes to the checkout page, and select from the shipment options and payment options. Executes payment and after checking all the desired details the customer submits the final order.

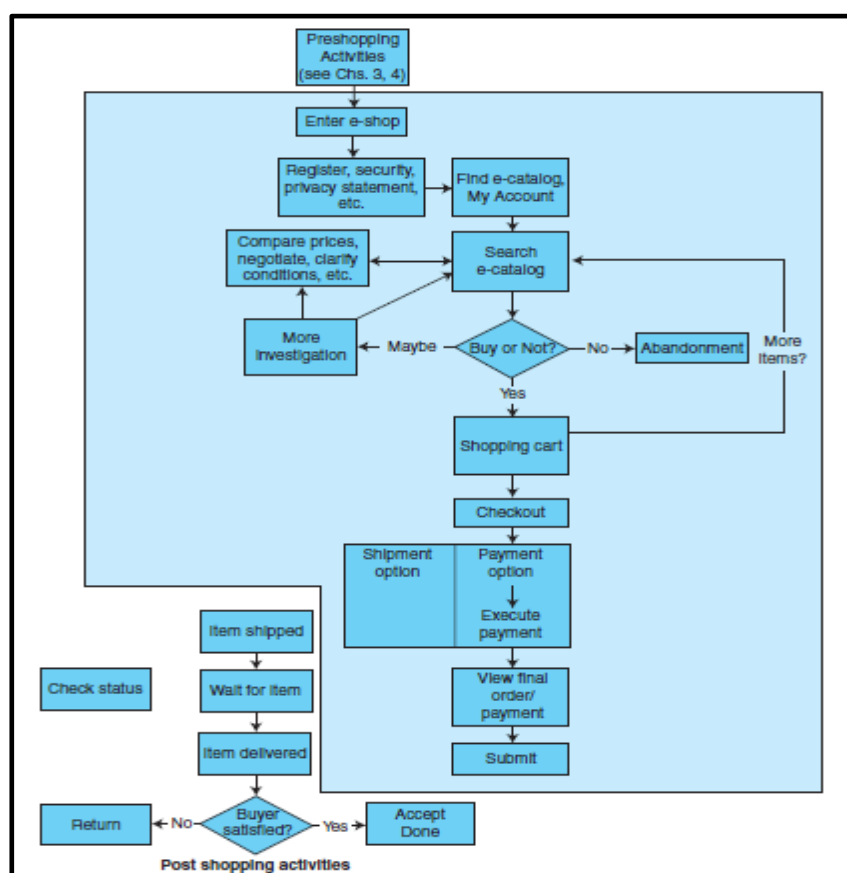


Figure 1: Buying process in an E-market (Turban et al. Electronic Commerce, 2010-94, 6th edition).

Post shopping activities are also very important for a company's reputation and for making loyal customers, checking status of shipped items and confirming after delivering about the status of the order make the buyer functional compared to its competing vendors.

The process remains the same for almost every EC website but some companies have introduced many different processes which distinguish them from others, like for example: some companies provide a test sample of the product especially food related websites and customers can claim the free offer only by visiting their website, while they were given a special code. Visiting the retail shops they show the specific code and receive their claimed item for test. Some EC websites do not sell any product but they make comparison of product prices and innovations, retailers pay these websites annually for keeping their websites alive as customers like to visit these websites for comparison of the products and then select from which website they are going to purchase a relevant item of their need, etc.

In many countries customers don't like to pay for their purchased goods by electronic transfer or bank and credit cards so websites have opened special pick up points from where customers can physically examine their purchased products and test, verify and then pay by cash.

6 COLLECTING INFORMATION

6.1 Introduction to Runet

Runet is a short form for the Russian sector of the Internet; Runet can also be described as Russian speaking or Russian-oriented websites. Formally identified as "Russian section of the Internet" all the websites that use this domain ". Ru" It consists of Russian sites and Central Europe Initiative (CEI) countries. Runet is not particularly favorable to the English, and it has its own attributes. As Internet is penetrating in Russia, Runet became the sixth largest world domain in use.

6.2 Worldwide internet and Russian internet users

According to internet world stats about top 20 countries with the maximum number of internet users in June 2012, Russia is at sixth position in the world with the population estimate of approximately 142 million and almost 68 million internet users, 47.7% of the total population uses internet which becomes 2.8% of the whole world. The study shows that in number of internet users, Russians have a significant advantage having a high number of internet users than any other country in Europe, this indicated that online retailers in Russia have a great deal of advantage. (Internet world stats, 2012)

In many other European websites, it is indicated that now Germany is at the top in Europe with the highest number of internet users and Russia have reached the 2nd position. The number of internet users shows that country has also the potential of electronic commerce and any online business can be successful with the accurate policies about marketing and supply chain, etc.

In a different survey shown in below figure-2 conducted by faberNovel in 2011 given the number of monthly users aged 18 plus in Russia there were 45 million users in 2010 with 39% of the total internet users. They have forecasted that it will reach 70 million and 62% in 2014, mainly due to more regional users and by certain population categories.

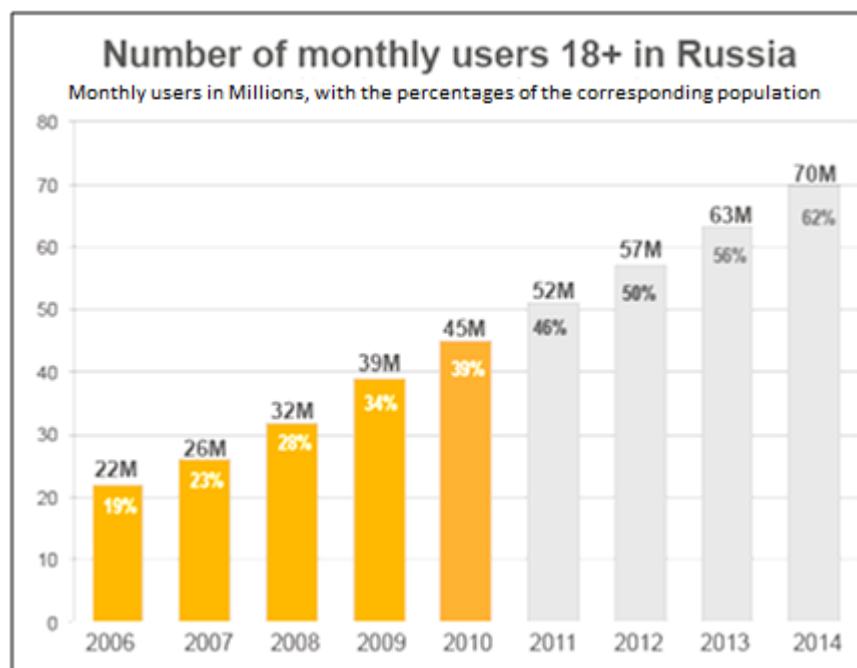


Figure 2: Number of internet users aged 18 and old in Russia (East west digital news 2011)

This survey prominently shows that the young population is increasing in Russia so the other constraints associated with it can also be considered like; the educated population who can use the internet and the economic factors like those who are old enough to make their decisions, also the trends of online shopping seems to grow. History shows that Russians were never late in any new invention or trend, from last few years internet has become the need for youngsters either for education, entertainment or for buying products while sitting at home.

In the report “The internet in Russia, spring 2011” by Public opinion foundation which is based on the result of 24 surveys and population of Russia aged 18 and older given in below figure-3 the percentage of internet users according to the geographical regions. The below figure shows that on the left side of the vertical red line, the situation looks clearly different as the most number of internet users in 2010 were the inhabitants of these regions. For which Central with 15.2 million and 28.7% of the total internet users in the country is leading, Volga had 9.9 million and 18.7% , South had 7.7 million and 14.6%, while North west had 6.5 million and 12.3% of the total internet users.

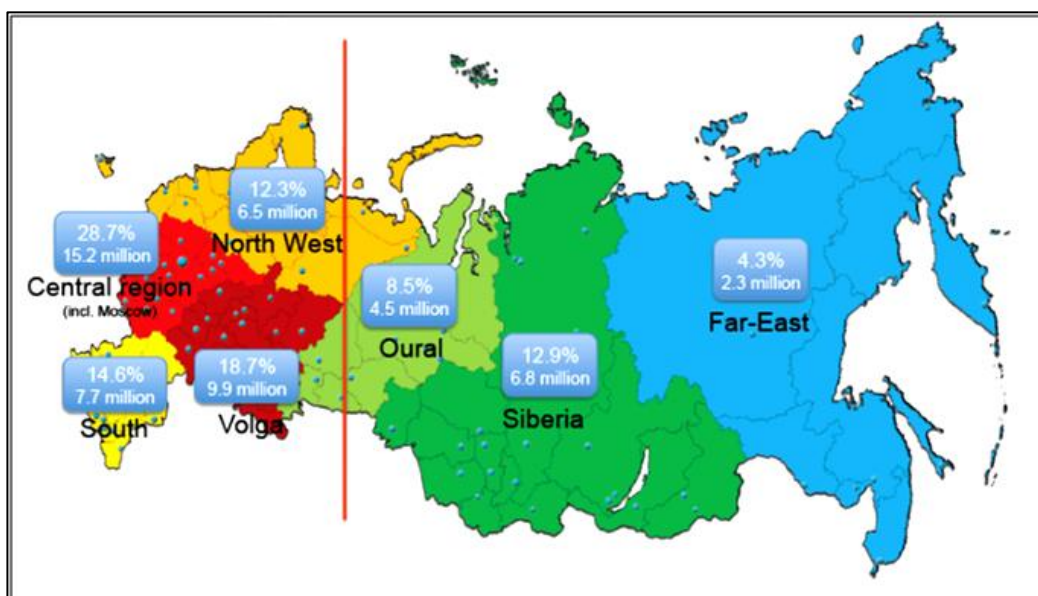


Figure 3: Percentage of internet users according to geographical regions in Russia (Public opinion foundation, EWDN 2011)

Looking at the right side of this red line the situation looks less attractive for E-business perspective as there Siberia had 6.8 million and 12.9% of the total internet users in the country, Oural had 4.5 million and 8.5%, while Far-east had 2.3 million and 4.3% of the total internet users. These figures evidently shows that the Central, North, South and Volga regions have the most number of internet users, it means that infrastructure in these regions, especially the central region is more superior than the other Far-east and Oural regions. These figures shows that Central and surrounding regions have the most number of internet users, know we will try to find which ten regions and cities have the most number of internet users.

In the below table-1 a report from “live internet Russia” the amount of single visitors from different regions of Russia is shown. The table shows the top 10 regions with large amount of internet users in Russia in the last one year from (January-2012 to February 2013). The regions were selected by the means of high average with respect to overall internet usage in the country, and with the name of one region like Moscow all the territories around were assumed as a part of it.

Number of Visitors from Different Regions of Russia						
Regions	February 2013		January 2012		At the average of 3 months	
	Value	Average	Value	Average	Value	Average
Moscow	16,729,126	26.7%	15,671,330	26.1%	15,763,466	26.4%
Saint-Petersburg	5,177,775	8.3%	4,907,352	8.2%	5,034,658	8.4%
Krasnodar	3,695,860	5.9%	3,595,902	6.0%	3,510,122	5.9%
Ekaterinburg	3,173,527	5.1%	3,058,057	5.1%	3,028,671	5.1%
Novosibirsk	2,545,522	4.1%	2,426,914	4.0%	2,401,785	4.0%
Nizhni Novgorod	1,906,813	3.0%	1,846,241	3.1%	1,824,570	3.1%
Samara	1,757,416	2.8%	1,717,444	2.9%	1,700,956	2.8%
Rostov-on-Don	1,573,863	2.5%	1,553,608	2.6%	1,520,468	2.5%
Chelyabinsk	1,329,760	2.1%	1,290,178	2.2%	1,281,592	2.1%
Kazan	1,300,941	2.1%	1,220,024	2.0%	1,205,821	2.0%
Amount of selected	37,616,744	60.0%	35,733,449	59.6%	35,751,646	59.9%
Total	62,737,491		59,981,440		59,707,997	

Table 1: Number of visitors from different regions of Russia (live internet 2013)

Moscow region has the most number of internet users by average following Saint-Petersburg and other big regions. Altogether these ten regions have approximately 59.9% of the whole users in Russia; these were also the regions with the most number of online customers. The stats show that technological infrastructure in these areas is much better than the other far most regions of the country. The international companies also like to launch their business in those areas where technological infrastructure meets the international standards; inhabitants are broad minded and advertising media free and moderate, have easy access to ports and harbors for supply chain. Looking to all the stats and figures the Moscow and Saint-Petersburg should be the first choices for the case company to initiate any business activity either Web-store or retail stores.

6.3 Profile of Russian E-commerce customers

In this section we will try to understand the size and strength of E-commerce customers in Russian market, which is clearly large enough according to previous stats of internet users.

First we try to analyze the size of the market and for this purpose we will use different sources and surveys.

Below figure-4 is from the report E-Commerce in Russia by east west digital news (EWDN) published in November 2012 by Chief Auditor Adrian Henni with the help of 40 authors and participants of leading consultancies and universities, based on interviews of 80 industry executives and experts.

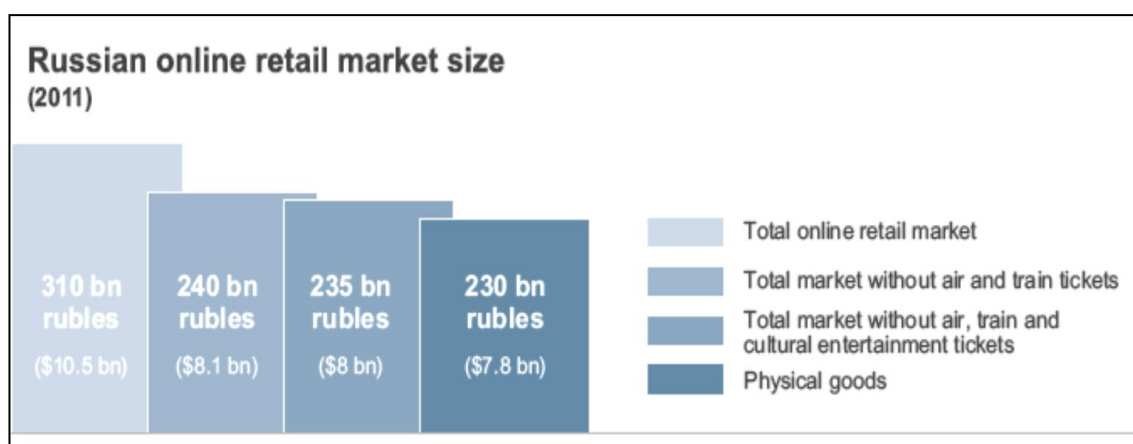


Figure 4: Russian online retail market size (EWDN 2011)

According to the data collected in the report the total online retail market in 2011 worth \$ 10.5 in which physical goods were \$ 7.8 billion which shows that the potential of this significant market is admirable. The online market in general comprises of numerous activities in which most favorable were train, air and entertainment tickets etc. But as our case company is dealing in physical goods only at the moment in Finland so looking at this aspect the size of physical goods market looks respectable.

From previous stats we can realize the strength of internet users but not all who use internet buy something online as every individual use internet for specific purposes. We also know the size of online retail market size which is extraordinary. The answers were clear from below statistics as in figure-5 the survey report from faberNovel, March 2011 describes the number of people who made online purchase in year 2009-10.

Ever made an online purchase (PWC, Apr. 2009)	80%	36 million people / 45 m users end 2010
At least 1 purchase for the last 3 months (PWC, Apr. 2009)	74%	33 million people / 45 m users end 2010
At least 1 purchase for the last month (FOM, Aug. 2010)	15%	7 million people / 45 m users end 2011

Figure 5: Russian online customers (faberNovel 2011)

The survey shows that the considerable percentages of respondents have done at least one online purchase ever, and with the increase in internet users in Russia the average number of online customers is also increasing as in one month approximately 7 million people have purchased something online, which means the online spending is appealing and trends are changing with time.

An association among income group and in capital and regions is given in the following figure-6. The stats show that in capitals even with low income groups the number of online shoppers is quite large then regions in Russia, about half with monthly earning 10,000 rubles spend something to buy online. As the monthly earnings in group's increases the online spending also increases.

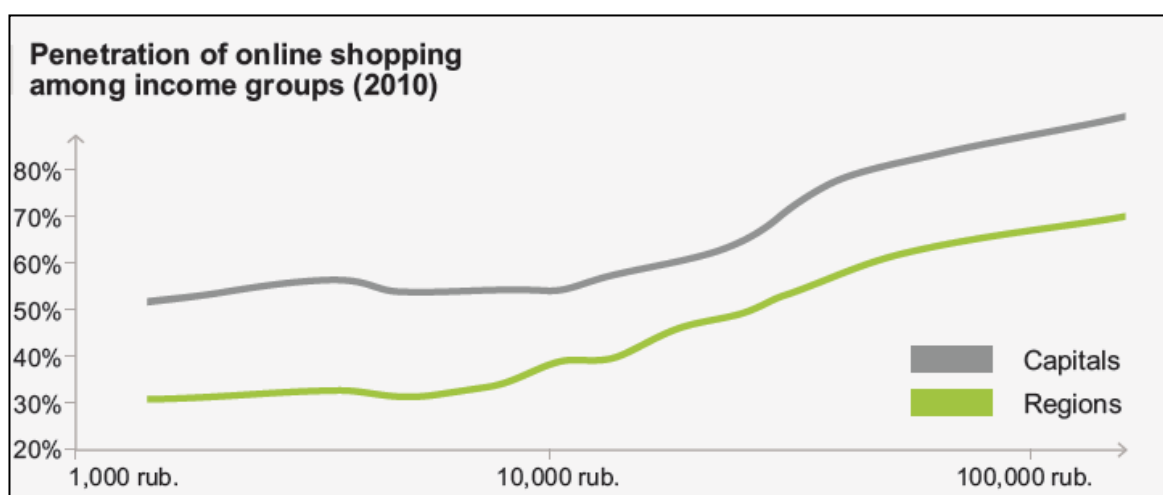


Figure 6: Online shopping trends between different income groups in Russia (EWDN 2011)

On the other hand people with high income and living in regions spend more money to buy online. Difference in online buying behavior looks very obvious when we consider the constraint of income levels. Customers with low income groups were always looking for lower price, safe delivery as well as complete product detail on the websites. While on the other hand customers with high income group most probably not care for cheapest prices but looking for more convenient delivery, good return policy, number of options available and trust.

6.4 Most popular items sold online

Although electronic commerce is versatile in nature and there are uncounted products available online but in this section the focus is on the most favored items in last few years in Russian online market, for this purpose below figure-7 represents the survey research of faberNovel, March 2011 the figures represents the most demanded goods by Russian online shoppers in 2010.

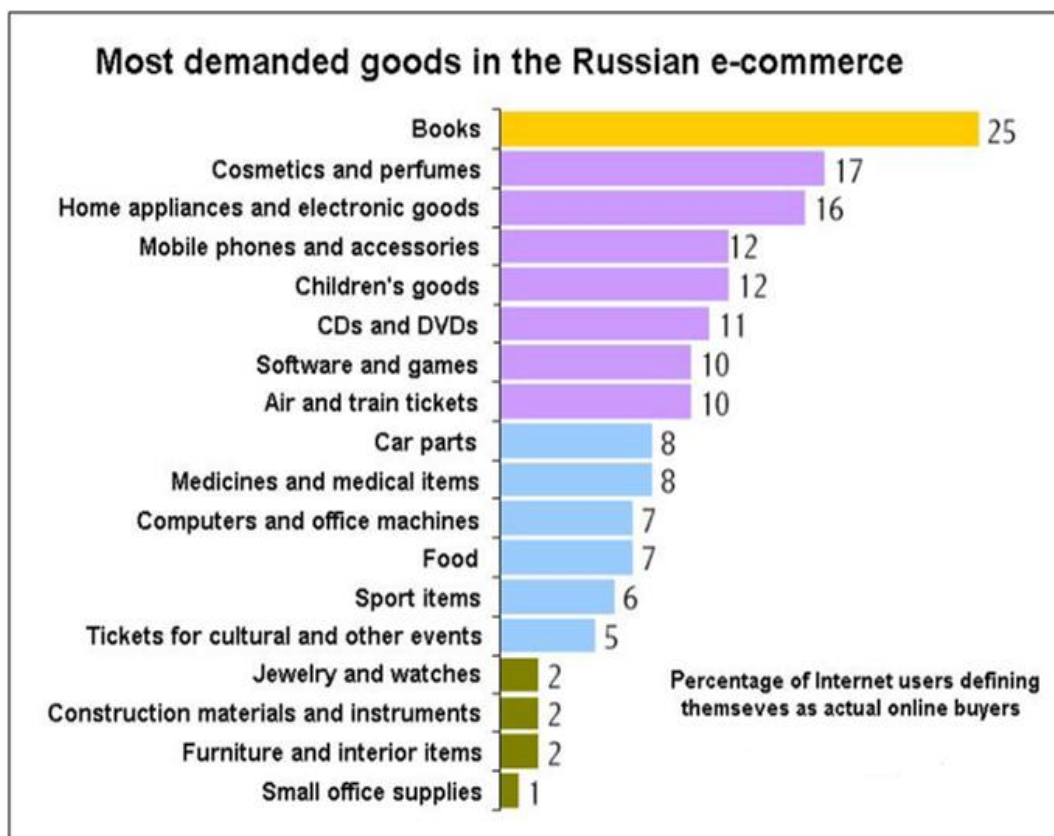


Figure 7: Most ordered goods in Russian e-commerce in 2010 (faberNovel 2011)

According to the survey 25% of the total customers purchased books on the internet in 2010, after that cosmetics and electronic goods industry had the strength in that year with 17% and 16 % of the total sales respectively. Mobile phones which are now called as smart phones and accessories got 12% customers attention and same for the children goods, CDs and DVDs 11% and both software's/ games and air/ train tickets 10%, respectively.

From the survey report it is noticeable that the trend of buying books online was the most appreciate able 3 years ago, while the smart phones and computers have got less attention by the Russian customers.

In another survey in below figure-8 households appliances were the most purchased by Russian customers in 2011 with 47% while in 2009 its average was 40%, while books are still the most sold items on the internet with 46% in 2011 and 45% in 2009, mobile phones 38% in 2011 while the data of 2009 was not given somehow, computer hardware and software 36% in 2011 while it was 35% in 2009. The market of footwear industry increased 13% in 2 years becoming 36% in 2011 while Travel industry also raised 11%, cosmetics and beauty products 4%, events tickets 10%, Video audio 12%, children products 7% respectively.

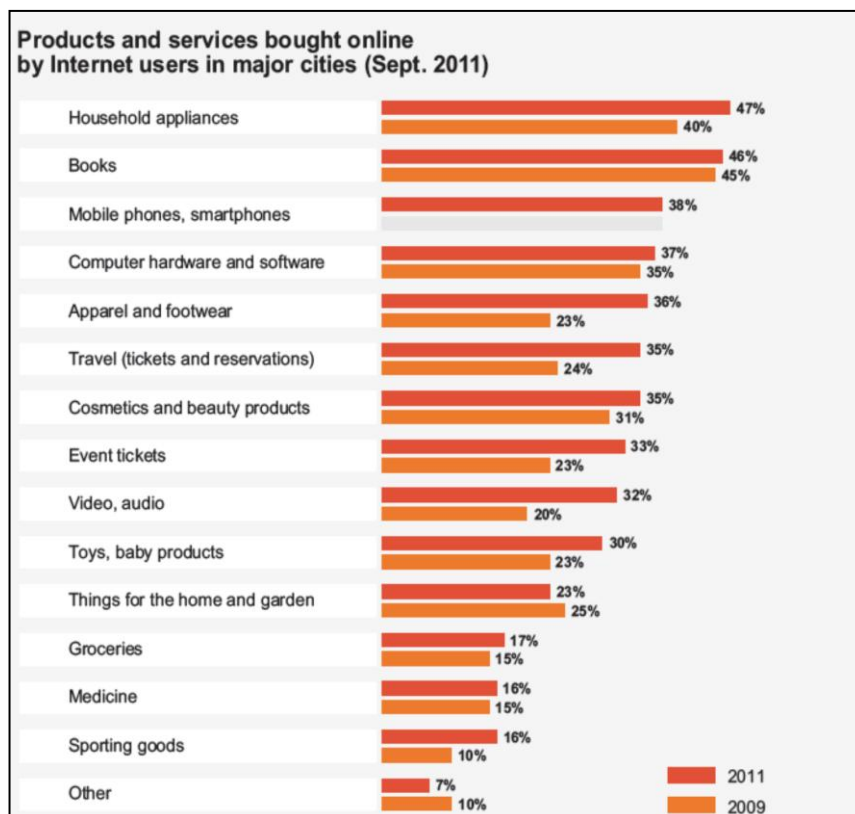


Figure 8: Profile of Russian E-commerce Customers (EWDN 2011)

There was not significant enhancement in groceries and medicines percentages while the online sale of sports goods increased 6% in 2011 then 2009. The sales of Things for home and gardens were reduced 2% and other things available on online retail stores 3%. Overall in 2011 the household appliances market were the most appreciated in 2011 with the significant increase in the online sales corresponding to other items. Although different surveys have given different results about the most favorable products and services in Russia, but most resembling in physical goods were books, household appliances and smart phones.

6.5 Most popular online retailers in Russia

According to previous stats Russian internet market has now become one of the largest in Europe and statistics said that this market has a lot of potential for the international ventures which are still very few and almost all the top online retailers are Russian owned. Today there are numerous online retailers some of them have become marketing giants.

According to the survey report by “InSale” in the year 2011 the ten most popular online stores are given in below table-2.

Position in 2011	Store link	Sales in Billion Rubbles
1	Utkonos.ru	6,4
2	Ozon.ru	4,6
3	Komus.ru	3,7
4	Quelle.ru	2,5
5	Svyaznoy.ru	2,3
6	Kupivip.ru	2,3
7	Wildberries.ru	2,3
8	biglion.ru	2,2
9	mvideo.ru	2,2
10	holodilink.ru	2,1

Table 2: Top 10 Russian online stores in 2011(InSale 2012)

According to the report in 2011 Utkonos.ru was the most popular online store provides delivery of food at homes, offices etc. In their catalogue there is huge range of products available like meats, sausage, milk, salads, cheese baby food, pet products etc. The company mainly works in Moscow and surrounding districts.

Second position in the list is obtained by Ozon.ru which according to them is the largest Russian online megastore with range over 1.5 million items; clients spend an average per month 12.5 million sessions and more than 70 million page views. Then at third place is Komus.ru which deals in products for office and computer equipment, also they are largest suppliers of paper, cardboard and plastic packing in Russia. Fourth place conceived by Quelle.ru which deals in clothing for women, men, teenagers, products for home and garden etc. Company deals the orders from headquarters in Germany and they deliver goods in all regions of Russia. The fifth place in the table taken by Svyaznoy.ru which sells electronic products like mobile phone, smart phones, cameras, laptops and notebooks, projectors etc.

At sixth position is Kupivip.ru which has shopping club, online boutique, online store, social network, model agency management etc. The shopping club is also available for people of Kazakhstan under KupiVIP.kz. At seventh place is Wildberries.ru which exists from last 8 years is an online store of fashion apparel, shoes and accessories, etc. At eighth position its biglion.ru which sells electronics equipments, clothing, food, stylish furnishing, unique gifts for any occasions and more. At ninth place its mvideo.ru which is selling more than 20 thousand kinds of equipments of electronics and appliances, audio/ video and digital trends, small and large home electronics, entertainment products and accessories ,etc. At tenth position is holodilink.ru which sells many kinds of electronic equipments for home and appliances, etc.

7 OBSTACLES FOR OUTSIDERS IN RUSSIAN E-COMMERCE

From previous given stats one can realize that Russia has the potential for outsiders to launch business ventures especially in E-commerce field where the size of online customers is increasing very exceptionally, while according to Russian critics market is still in early stage of development with more than 10 big giants dominating the market generating \$100 million or more every year. To step in this territory with absolute treasures Tokmanni have to over view some very important constraints which will be shortly described in this section.

7.1 Language

Runet the domain “.ru” almost all the internet sites in Russia use, but Russian is not especially English language-friendly and it has its own paraphernalia. For international companies trying to start the business venture in Russia, language is the first barrier which they have to overcome by any means. Most Russians don't speak foreign languages even English so communicating with your counterparts or officials can be difficult. Linguistic barriers produce immense difficulty for international companies and their staffs working inside Russia as most companies before sending their staff to Russia arrange language classes which were compulsory for those going for the business operations there. With the help of these courses although representatives of international staff were able to speak some Russian language but reading seems somewhat problematic, especially when they have to sign the official documents. A competent language translator becomes almost necessary for these purposes and the Russian websites and legal documents should also introduce English sections so that more and more international companies show attraction in doing business there and more easily.

7.2 Electronic payment system

For a company doing business online the electronic payment system for transactions has utmost importance as the increase of e-commerce all over the world, electronic payment system has become very common. When we conduct the research in Russia the figures are very alarming somehow as the use of this medium has very strange meaning is Russian e-commerce. According to an interview by **Maele Gavet**, director general of a Russian mega-store ozon.ru for BBC News in 2011 “Some 80% of dealings at ozon.ru were in cash as she explains that Russian customers don't feel very relaxed with online transactions, they prefer to place an order online, then go to pick-up point, touch the goods, make sure everything is in order and then pay. This also linked to the fact that credit and debit card circulation is much lower in Russia then in the west, and they tend to naturally prefer to pay by cash.” (K. Rozhnov, BBC News 2011)

According to survey about the understanding of use of electronic payment structure among the Moscow inhabitants by “TSN in east west digital news website” the results in below figure-9 shows that offline payment terminals (cash) was the most favourite method for transactions in the Russian capital with 79% respondents have used this method. When it comes to most important in e-commerce payment by bank card only 29% customers have used this medium while more than half 55% know about this but don’t use it and 16% don’t even know about this payment method.

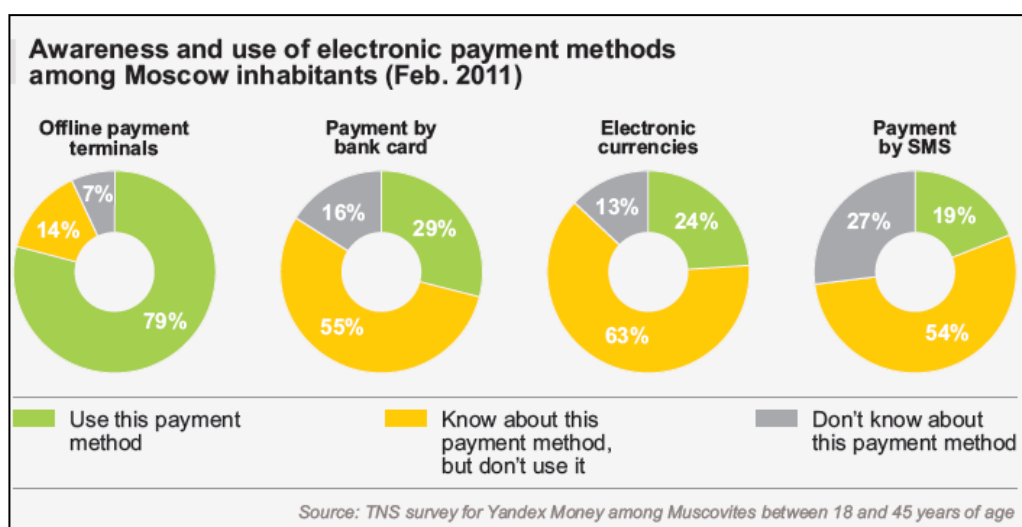


Figure 9: Electronic payment structure familiarity among Muscovites (EWDN 2012)

When it comes to most important in e-commerce payment by bank card only 29% customers have used this medium while more than half 55% know about this but don’t use it and 16% don’t even know about this payment method. In electronic currencies only 24% have used this while 63% know about this but don’t use it and 13% don’t know about this payment method. Payment by SMS used by only 19% of the respondents, 54% know about this but don’t use while 27% don’t even know about this payment method.

The situation in Russian online market payment systems represents that online shoppers still have lack of trust in electronic payment system. One reason of this according to **Maelle Gavet**, director general of a Russian mega-store ozon.ru for BBC News in 2011 “When online retail started in Russia several years ago, there were a lot of companies appearing and disappearing overnight. As a result first courageous customers did not always receive their orders, or the goods were broken, or they were sent to wrong ones.” (K. Rozhnov, BBC News 2011) Knowing the complexity of the situation many companies have given incentives and discounts on their websites for those who pay online and it seems that it will take few years for the Russian online customers to trust on bank cards and other electronic payment methods which are very common in western Europe especially in Finland where the case company exists at the moment.

7.3 Human resources

For any outsider company going to launch business venture in Russia most probably require the qualified human resources, native speakers skilled employees. Fast growing e-commerce industry in Russia faces the challenge of lack of qualified and skilled human resources. According to different surveys in Russia there is massive shortage of trained professionals like electronic market professionals from marketing to supply chain, project managers to developers because of rapidly growing electronic market and competition. The situation have resulted in expanding salaries for they certain key positions. The educational system is not fulfilling the requirement at present and it will take few years to give the industry with highly trained skilled professionals.

7.4 Legal aspects

It is of upmost importance to understand the legal issue of the country where some outsider company intends to launch its business venture for knowing the potential risks. E-commerce industry has certain requirements and industry related laws protect the business and customers. According to the different surveys on legal system in Russia the results have shown that E-commerce is still behind in this aspect and controlled by the laws which were not specially made for this industry.

7.5 Bureaucracy and Corruption

Unfortunately when some outsider company plans to start new business ventures in Russia, they should be ready for dealing with some sort of bureaucracy and corruption especially for a Finnish firm as it has no such routs in Finland. According to VMconsult report of 2011 on Russia, “the rule of law questions as to the independence of the judiciary, red tape and customs formalities are just of the problem which can be located under the broad umbrella of bureaucracy. The enduring problems with bureaucracy increase the transaction costs of any potential venture on the Russian market and much to be taken into account when planning”. (VMconsult 2011)

According to World Bank’s Enterprise survey report on Russian federation, the below figure-10 shows the graft index and corruption indicators. Report indicates that corruption by public officials may present a major administrative and financial burden on firms. Corruption creates an unfavorable business environment by undermining the operational efficiency of firms and raising the costs and risks associated with doing business. (World Bank’s Enterprise Surveys 2012)

	Russian Federation	Small Firms (1-19 Employees)	Medium Firms (20-99 Employees)	Large Firms (100+ Employees)
Corruption Indicators				
Incidence of Graft index	16.1	12.5	23.4	9.1
% of Firms Expected to Give Gifts In Meetings With Tax Inspectors	7.3	4.1	8.0	15.2
% of Firms Expected to Give Gifts to Secure a Government Contract	20.7	18.1	25.8	12.1
% of Firms Expected to Give Gifts to Get a Construction Permit	26.8	20.6	29.4	33.8
% of Firms Expected to Give Gifts to Get an Import License	27.5	8.9	47.1	7.7
% of Firms Expected to Give Gifts to Get an Operating License	12.6	8.0	20.9	6.2

Figure 10: Corruption Indicators in Russia (World Bank's Enterprise Survey 2012)

According to the indicators about 7.3 % of firms expected to give gifts in meetings with tax inspectors in Russia while large firms give most 15.2 %. Firms expected to secure a government contract 20.7%, construct permit 26.7% and import license 27.5% respectively. While 12.6% of firms expected to give gifts to get an operating license. The figures shows that large firms were mostly expected to give the gifts to get a construction permit about 33.8%, while medium firms to get an import license 47.1%.

Graft is considered mostly as a form of political corruption and almost every country have laws to control this type of corruption, but it does not always means political corruption. It can be gifts, skim money to the governmental funds or in private institutions, social groups etc.

8 ANALYSIS

In this section the author presents the analysis of some key facts about the Russian electronic commerce industry, while using all the statistics mentioned earlier in the report. As mentioned previously that Russian economy is growing and e-commerce industry is flourishing with high speed, new trends of shopping have been adopted by the Russians especially by the inhabitants of capital regions, but for an outsider company planning to start a new venture in e-commerce there are still lurid stories about corruption and legal difficulties. Here below the PEST analysis (political, economical, social and technological) of the E-commerce industry in Russia is given according to our findings.

8.1 Political issues

Political stability is the first indicator for foreign companies to invest in the market, looking into Russian politics it seems although the country is economically strong and political stable but there are still need to regulate more governmental effectiveness, regulatory quality, rule

of law and control on corruption. E-commerce industry has certain requirements and industry related laws protect the business and customers. According to the different surveys on legal system in Russia the results have shown that E-commerce is still behind in this aspect and controlled by the laws which were not specially made for this industry. According to World Economic Forum 2011-12 rankings, "Russia is in the bottom decline on the burden of government regulation, with its weak institutional framework cited as a key obstacle to growth. Even when laws and regulations do not obstruct firm's entry and exit, application and enforcement of rules often remain inconsistent". (World Bank and International finance corporation 2012)

In the report of U.S Department of state in June 2012 about investment climate statement in Russia they mentioned that "independent dispute resolution in Russia can be difficult to obtain since the judicial system is still developing. Courts are sometimes subject to political pressure".

8.2 Economical issues

In 2011 size of online retail market in the total online retail market in 2011 worth \$ 10.5 billion in which physical goods were \$ 7.8 billion which shows that the economic potential of this significant market. Indicators have also forecasted that online retail market is growing 25% at least every year and has the capacity of increasing more than that. East west digital news predicted that by 2020 the Russian e-commerce market could reach \$ 50 billion, and in longer term \$100 billion, but fewer than two conditions, increase in the number of internet users and the solution of structural and infrastructural problems, in particular logistics. Economically the market has potential and large size but at the moment 30 large players in online retail business have control on the market as they have made strong grounds in the market and become economically very strong, so small and medium size companies do face serious problems in generating sales. The average salary rate in Russia is quite lower comparing to western European countries.

8.3 Social issues

Russia is at sixth position in the world with population with almost 68 million internet users, 47.7% of the total population uses internet while number of monthly users aged 18 plus in Russia there were 45 million users in 2010 with 39% of the total internet users and according to forecasts it will reach 70 million and 62% in 2014, mainly due to more regional users and by certain population categories like young users. Most of the population living in capital regions uses internet while remote areas are still behind. These stats show that Russians are very much social and with increasing technology the social boundaries are also expanding.

According to e-marketer the survey research of Levada Centre in 2012 shows that Russians use internet more for finding information and communicating. Almost half of the respondents in that survey said they use internet for having fun about 47% while others use internet for different purposes. But the bottom line is that socially they are more active than in previous years. As the trends of using internet are changing the social behaviors of people will also change. This proves that the indicators of e-commerce market potential in future were almost right. (E-marketer 2012)

8.4 Technological issues

Although Russia is the sixth largest country in terms of internet users but still with the average of its population it seems lacking in advance technological solutions, especially when it comes to using broadband internet. According to the report of Business software alliance in 2012, Russia does not appear to have a cohesive and funded national broadband plan, although some general targets were set in October 2010 as part of the information society 2011-2020 federal programs, with a budget allocation of 89 billion rubles (\$ 3billion). The current government goals are by 2015, 35% of the population to have broadband access and 75% of households to be connected to the internet. Also there is no formal policy in Russia regarding net neutrality. However, in practice shaping is commonly used by ISPs to manage network traffic. (Business software alliance 2012)

9 CONCLUSION AND RECOMMENDATIONS

In this section the author gives the main findings of this study and presents some recommendations to the case company, and to start with some important statistics.

According to internet world stats in June 2012 there were 68 million internet users in Russia, while according to Ease west digital news number of monthly users aged 18 plus in Russia there were almost 57 million the same year. The total online retail market in 2011 worth \$ 10.5 in which physical goods were \$ 7.8 billion which shows that the potential of this significant market is admirable. The online market in general comprises of numerous activities in which most favorable were train, air and entertainment tickets. In August 2010 approximately 7 million people have purchased something online which becomes 45 million at the end of 2011. About 50% Russians with monthly earning 10,000 spend something to buy online, while the group with high income reaches almost 64%. Inhabitants of Moscow, Saint-Petersburg and other eight big regions have almost 60% of the whole Russian internet users and most number of online customers in Russia. In physical goods generally the most sold items were book, leisure industry goods, electronics and smart phones, food and domestic applications, etc. There are more than 25,000 online stores in Russia according to Insales research, but top 30 giant

companies make revinew of almost 75% of the whole market size with totaled less than \$3 billion in physical goods.

In the previous analysis section the political, economical, social and technological analysis have been mentioned, the study shows that if Tokmanni oy, plans to launch new web store in very near future(in few years) it can be a big success. As the Russian market is full of potential but there are some recommendations which they can follow for a sure success, like

- Hire some qualified native Russian speakers or find a strategic partner.
- Find the payment partner like PayPal, Yandex or QIWI as mentioned in the report Russian online customers mostly like to pay by cash then bank cards.
- Choose the capital city first for the initiate launching Saint-Petersburg will be the best option for this purpose, as it is close to Finland and have a big harbor.
- Give your Russian website a unique look so that it can pass of Russian customers and they like to visit and buy.

These are the only few recommendations for the company, not to mention the legal aspects and corruption troubles which case company might face at the initiation of their Webstore. Russia is the fastest growing nation and now it has joined WTO (world trade organization) and planning to join other known organizations of the world. E-commerce is increasing with a speed of almost 25% annually which makes it even more sparkling for international companies to start the business ventures. The time is right for the Finland's very prevalent company Tokmanni Oy to initiate the Webstore like they have in Finland (Toknet.fi), in few years it will show on records the best strategic move.

10 FUTURE RESEARCH POSSIBILITIES

There are some certain points very essential to monitor before launching a new Webstore in Russia like general and legal requirements, supply chain management issues, taxation and import duties, financial and business risks, network and technological issues, economical situation of the country, average salaries of qualified and non-qualified staffs, transportation facilities, exchange rates and experience of international companies which already exists in Russia etc. In future there is a possibility to study these issues and evaluate the financial report also on the base of the results. Finally, the author expresses that this report will not only help Tokmaani Oy, but also to any other company who wished to flourish and broaden by entering the large market of Russia which has substantial potential.

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